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C O N F I D E N T I A L SECTION 01 OF 02 ANKARA 001580

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TAGS: [ENRG](#) [EPET](#) [TU](#)
SUBJECT: TURKEY'S ENERGY DEAL WITH IRAN STALLED

REF: A. ANKARA 1497
[1](#)B. ANKARA 711
[1](#)C. DOHA 605

Classified By: Economic Counselor Dale Eppler for reasons 1.4 (B) and (D)

[1](#)1. (C) Summary. Local press continues to speculate that Energy Minister Guler will travel to Iran soon to conclude a detailed energy agreement. In private, Energy Acting Under Secretary Selahattin Cimen told us the deal has no legs. He confirmed that technical negotiations between Iran and Turkey continue but claimed the two sides are far apart on the details. Specifically, the GOT is seeking two deals: one to transit Turkmen gas to Europe and another to explore and develop a part of Iran's South Pars gas field. StatoilHydro Istanbul Director told us Turkey faces a difficult predicament. They need a partner because they can't do the deal themselves but Iranian terms are not lucrative enough to attract one. End summary.

What the Turks What

[1](#)2. (C) Contradicting press reporting that Minister Guler and Foreign Minister Babacan would soon conclude an energy deal with Iran, Ministry of Energy Acting Under Secretary Selahattin Cimen described energy talks with Iran as perpetually stalled. He said the GOT is seeking two separate agreements with Iran: one on transit and one on exploration and production. Cimen said that "certain European countries" continue to push Turkey to make a deal with Iran because it would improve Europe's energy security by bringing more Iranian and/or Turkmen gas to Europe. In discussions with Iran, Cimen said, the GOT has insisted that Iran offer to Turkmenistan the same transit terms that Turkey affords to Iran to transit Iranian gas through Turkey to Europe. Cimen said Iran's refusal to accept this principle effectively leaves the negotiations frozen and that he would be surprised to see progress in the short term. Cimen hinted Turkey's adherence to the "transit-for-transit" position stems from concerns about the Iran Sanctions Act (ISA). Turkey hopes to avoid triggering ISA by claiming any gas through Iran to Europe is from Turkmenistan, rather than Iran.

[1](#)3. (C) Regarding the deal that would provide Turkish Petroleum (TPAO) a license to develop phases 22-24 in the South Pars field, Cimen said a TPAO technical-level team was

in Tehran the week of August 25. He claimed the two sides remain far apart. Iran continues to offer TPAO a buy-back scheme (where TPAO would sell all production to the Iranian government at a price set by Iran), while TPAO continues to insist on a production-sharing agreement. Cimen said the whole point of a deal with Iran is to bring additional gas supplies to Turkey and, without that condition being met, talks will not lead to an agreement.

Why the Turks Can't Get a Deal

¶4. (C) As we have previously reported (reftel b), TPAO does not have the technical expertise or financial resources to develop a gas field in Iran without a major partner. StatoilHydro Istanbul Director Per Myrvang told us August 26 TPAO's need for a partner is probably complicating negotiations with Iran. In order to attract a credible partner, TPAO must get "bankable" terms, terms that meet risk and payback percentages acceptable to Western banks. The Iranian "buyback" pricing scheme doesn't produce bankable terms. Myrvang described the challenge of negotiating with Iran "impossible" and recounted StatoilHydro's own misadventures in Iran. On August 1, the company announced they would halt all investment in Iran but continue with ongoing contractual obligations. With this decision, StatoilHydro will forego the development of the Azar field with the promise of 50,000 barrels of oil per day. Myrvang said that Statoil now has decided to write off all of its operations in Iran. The Iranians "do not do what they say they will do, and do not honor contracts." Given this

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experience, Statoil is walking away from its South Pars work as well as "very attractive" oil properties they have been offered. Statoil's decision follows a similar decision by French company Total to pull out of a lucrative LNG project on the South Pars field (reftel c). In a separate meeting, former Ministry of Energy Deputy Undersecretary Yurdakul Yigitguden summed up his view on Turkey-Iranian negotiations by stating, "if you start negotiating today, in twelve years you may have a deal."

¶5. (C) Comment: Unsourced press statements about progress in the Turkey-Iran energy negotiations continue to be more upbeat than Cimen and others have conveyed to us in private. The GOT may be using the press to convince the public that things are moving forward, while all our indications are that things are stuck.

¶6. (C) Comment continued: While we can't completely rule out the possibility that interlocutors are telling us what we want to hear on Iran, Guler, in particular, has a motive to show progress now. Rumors that Guler may be removed from the Cabinet are increasing. Similar rumors about Guler's fate were widespread following the July 2007 parliamentary elections and conventional wisdom holds that Guler saved his job by delivering the Iranian MOU on natural gas. With trips to Ashgabat and Astana the week of September 1-5, a trip to Baku the week of September 8, and a trip to Iran on the horizon, Guler may be trying to pursue the same tactic of shoring up domestic support by delivering an international agreement. However, it appears unlikely Guler will be able to successfully conclude a detailed arrangement with Iran on energy anytime soon. End comment.

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